# The BURDEN of TAXES

by LABOR RESEARCH ASSOCIATION

HOW TAXES TAKE A THIRD OF YOUR INCOME—WHAT YOU PAY FOR GUNS—TAX 'REFORM' TO AID MONOPOLY AND THE RICH —A PEOPLE'S TAX PROGRAM

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# 1. INTRODUCTION

Few features of our economy today are more unjust than the burden of taxes imposed on the great majority of the people. Steadily, almost without let-up over the last two decades, more and more tax money has been extracted from the mass of low and middle income Americans. Today, even conservative economists admit that almost one-third of a worker's wages, in one form or another, goes to pay taxes.

Why have taxes become such a major factor in living costs? Not so long ago only those fortunate few with large incomes were called upon to contribute a small fraction of their wealth annually to the public treasury. But now everyone feels the whiplash of tax assessment. New and varied levies have cropped up to hit the people at every turn, in almost every phase of daily living. Taxes are taken out of wages even before the workers receive them. And they are added to the cost of most things people need and buy.

This present crushing burden on the people is largely a product of huge, reckless spending for armaments, coupled with a grossly inequitable tax policy.

Spokesmen for government and Big Business contend that taxes are a necessary tribute that must be paid for the benefits of the "free enterprise" way of life. During periods of "cold war," they are pictured as "sacrifices" that must be endured for the sake of "national security."

But "free enterprise" benefits, to these champions of wealth, mean only the protection of their private property with the aid of tax monies raised from the people they exploit. Their use of the term "national defense" signifies their freedom to obtain war contracts netting them maximum profits. It is aimed also at further safeguarding their investments abroad with forces paid for, in part, by taxes on the people.

The question of how much "sacrifice" each class must bear is decided through government legislation. If relief from taxation is permitted one group, the loss in revenue is made up by

additional levies on others. Almost all major tax laws passed since 1940 have raised assessments levied on lower-income and middle-income groups while showing favoritism toward the fortunes of the wealthy.

What are the reasons behind the development of such a tax policy?

### *Tax Favoritism and Lobbying*

Most of those now in government are well-heeled business or professional men, eager to minimize their own tax liability. Often in congressional finance committees, where federal tax laws originate, the leading members are millionaires who are interested personally in one or another proposal favorable to the upper class. White House spokesmen on tax matters are in the same class.

Thus, Secretary of the Treasury George M. Humphrey, director and owner of large corporations, was vitally concerned with providing "relief" to dividend recipients in 1954. Or consider Robert S. Kerr, Oklahoma Democrat and big oil magnate, who in Senate Finance Commitee hearings fought to retain the huge depletion bonanza for oil and mining companies.

The record includes many instances of legislators and others acting directly in behalf of the wealthy. And the virtual absence of any labor representation in these bodies precludes workers' interests from getting adequate attention.

The government decides also the method of tax collection — which taxes are to be withheld immediately, which to go unpaid until later. At present, federal income and social insurance taxes on a worker's wage are taken out of his pay check. But persons receiving more than $100 in income from dividends, interest or rent pay only at quarterly intervals on the basis of their own estimates made in advance.

The legislators determine also who shall be permitted relief from certain levies; which groups are entitled to special privileges; what kind of income ought to be wholly exempt from taxes, partially exempt, or taxable at specially reduced rates.

In making these concessions, legislators are largely influenced by the amount of lobbying carried on by various "pressure groups." Before any general tax law is passed, committee hear-

ings are held, at which almost all major industrial interests are represented by tax specialists. In addition, such powerful organizations as the National Association of Manufacturers, Chamber of Commerce of the U.S., Committee for Economic Development, national trade organizations and corresponding state and local bodies bring in their tax advisers to plead for their special demands. Powerful lobby groups, like those for oil, minerals, real estate, manufacturing, utilities and railroads, are always around to safeguard their interests. These same groups besiege legislators with letters and telegrams, as well as with more personal forms of pressure.

The full effect of such lobbying on final tax legislation is almost impossible to assess. A recent study of the subject prepared by a Northwestern University professor had this to say: "Pressure groups are active and effective in constant alteration of our tax laws. . . . It's a contest in which powerful interests endeavor to rid themselves of tax burdens. . . . Congress has responded to pressures for the benefit of specific individuals, industries and economic groups."[1]

### *New Tax "Principles"*

As a result of this one-sided development of tax legislation, a whole series of "principles" has emerged allowing the rich to unload a large part of their tax burden on the shoulders of the people. Stripped of legal language, they consist of the following:

1. Large amounts of the income of the wealthy treated as something "special," either not taxed at all, or taxed at reduced rates. On the other hand, a worker's wage is always subject to full taxation after inadequate exemptions.

2. A vast increase in consumption taxes levied on the things all people need and buy, which hit low-income groups the hardest; decreasing emphasis, especially in states and cities, on taxes based on "ability to pay."

3. Wide latitude granted the rich in deductions against income for business expenses disguising personal luxuries; only token relief given to wage-earners with unusual hardship conditions.

4. Enormous allowances extended to corporations for depreciation on machinery and equipment but none to a worker for

the wear and tear on his labor power in turning out the nation's products.

5. Privilege given to companies to offset earnings and losses over an eight-year period, guaranteeing tax refunds during years of adversity: no such protection for a worker suddenly thrown out of his job.

6. Relief provisions for personal income derived from investment, including exclusions and credits for dividends received; taxes on a worker's wage deducted before he even sees it.

The substance of all these developments, and others discussed below, goes to the very heart of capitalist tax thinking: priority of money and machine values over the value of the human being.

# 2. WHY HIGH TAXES?

TAXES ARE the main source of revenue for financing government operations. Before 1933 the principal costs of government went for functions usually described as protective and regulatory. Except during World War I they had been mainly of a civilian nature. Revenues were obtained chiefly from levies on well-to-do individuals and business firms. The total taxes paid by the average worker's family constituted a very moderate share of its budget.

Under the Roosevelt New Deal, however, a large-scale program of social improvement was enacted to help promote recovery from the 1929-32 economic crisis. Following the Keynesian concept of government "pump-priming," the federal government increased its outlays for public works, public housing, farm conservation, public relief, and various cultural enterprises.

The rising costs of government activities required additional tax levies. But the top-income groups fought tooth and nail against higher assessments. As a result, personal exemptions in the federal income tax were reduced from $1,500 to $1,000 for an individual and from $3,500 to $2,500 for a married couple. This extended the tax downward into lower-income categories. By 1939, the number of federal income tax returns had increased to 7.6 million, or about twice the 1932 figure. Also, during this

period Congress began to levy selective excise (sales) taxes on a number of items of individual consumption.

It took World War II, with its vast spending for armaments, to add other millions of new taxpayers to the rolls. Most of these came from wage-earner and other low-income categories, many of them, of course, making higher money wages than before. By 1945, close to 50 million federal tax returns were filed.

This was accomplished by the unceasing pressure of Big Business lobby groups in both houses of Congress. Despite an orgy of profit-taking from war contracts, these interests, with their slogan of "equal sacrifice for the war effort," succeeded in getting crippling changes written into the tax laws.

The personal income tax exemption was reduced to as little as $500 per person, whether single or married. Moreover, payment of this tax by workers through withholding from wages by employers was introduced under the Ruml Plan. This so-called "pay-as-you-go" device plucks the tax from a worker's pay envelope even before he gets it.

One of the main drives of reactionaries in the war period centered on increasing sales and excise taxes at all government levels. A series of federal consumer taxes was clamped on top of the cost of many necessaries. In addition, direct retail sales taxes on almost all purchases were levied by many states and municipalities. These taxes hit low-income groups the hardest.

When the war ended and some relief was in sight, the rich again fought for tax advantages at the expense of the people. As the postwar boom began to peter out, and jobs became harder to get, Congress passed the Revenue Relief Act of 1948, giving sizable relief to the wealthy but retaining the tax base built up during the war.

Meanwhile, states and cities found themselves beset with long overdue improvement programs for highways, schools, hospitals, and other public works. To finance these, additional consumer taxes were passed by Big-Business-dominated legislatures, while the extremely low state income tax levies on the rich were not raised.

When the Korean War was launched, spending for armaments once again jumped to high levels. This was met, in large measure, by two hikes in federal individual-income tax rates

(amounting to a 38% increase for most wage-earners), and another increase in federal excise rates. The latter, although voted as a temporary extension, is, in the main, still in force.

The masses of wage-earners and the middle-class were called upon to meet the mounting costs of this war in which the people had no stake. Only the munition makers and monopolists could profit from such a costly and disastrous adventure. As one Washington writer put it: "The government assumed this role of fattener of the giants as soon as the war in Korea began."[2]

## *Today's Cold War Budget*

Today, despite our non-involvement in any shooting war and despite the lessening of tensions in many parts of the world, most of the national budget of close to $66 billion goes for programs related to war. Principal outlays, totalling close to $43 billion in the 1957 budget, are for what are called "national security" purposes, including: U.S. armed forces, $35.5 billion; military aid to so-called "free world" allies, $2.5 billion; atom and hydrogen bombs, $1.9 billion; stockpiling of war materials, $400 million, and related programs, $2.5 billion.

War-related expenses include subsidies to private airline and merchant marine industries, Coast Guard, military manpower selection, increased production of war materials, and activities connected with "civil defense." Thus, almost two-thirds of the total national budget is earmarked for war and related purposes.

In addition, there are huge sums budgeted as a result of previous wars. Benefits and services for veterans are allotted about $4.9 billion, while interest on the huge national debt (about $280 billion, incurred mainly in financing World War II) comes to $7 billion.

Of the remaining $11 billion in the federal budget, $2.1 billion goes for economic and other "aid" to "free world" allies. After these military and related items are totaled, we find that no more than $9 billion, or 13% of the budget, actually is directed towards the people's welfare. Most of the beneficial projects launched during New Deal days have been either abolished or drastically curtailed. Housing, school programs, aid to farmers, labor services, power development, reforestation, soil conservation and flood control, despite much talk in Republican

speeches, have been among the hardest hit as the war spenders curtailed such items in the budget.

Today, vast sums are authorized and appropriated by Congress for guns, tanks, battleships, military aircraft, guided missiles, atom and hydrogen bombs, and other possible weapons of mass destruction. The latest budget mentions some of these "atomic age" projects: intercontinental bombers, supersonic fighters and interceptors, and nuclear-powered airplanes and warships. These are the latest additions in the "modern arsenal for democracy."

## *Methods of Military Spending*

These sums are expended through huge military contracts to the top industrial corporations. The actual cost of most war items generally is shrouded in secrecy, thus placing the main reliance for proper spending in the hands of government procurement officials.

But the men charged with military procurement most often are themselves from the ranks of the munitions manufacturers. The true story of shocking overpayments on present-day war contracts will some day come to light, just as after World War II. But meanwhile enough information has seeped through to reveal much of the shameless theft of the people's tax money by profit-hungry war contractors.

One of the basic tenets of the Defense Department procurement regulations is to place contracts, to the fullest extent possible, by the methods of formal advertising. This means inviting free competitive bidding as the basis for placing orders. During periods of war or "national emergency," however, the regulations permit greater resort to procurement by negotiation, i.e. issuing contracts to so-called "established sources." And these "established sources" or companies often have retired military officers as their executives.

Despite the ending of the Korean War in June 1953, nearly 93% of all procurement actions in the fiscal year 1954 were handled without advertising. Dollar value involved in these unadvertised deals amounted to 84.5% of the total placed. For the Air Force alone, the corresponding shares were 94% and 97%.[3]

Much the same pattern appeared to have continued into fiscal 1955. Commenting on this huge concentration of orders to Big Business interests, the U.S. General Accounting office termed it "complete surrender" of control in procurement policy "by the congress to the military."[4]

As a result, the big industrial corporations have grabbed the lion's share of war contracts. Despite the protests of small businessmen's organizations and some congressional committees, the bigs have managed to increase their control over procurement. In fact, the 100 corporations receiving such contracts accounted for nearly two-thirds of the prime defense contracts granted during the five years ended June 30, 1955. (Details on this concentration are given regularly in *LRA's Economic Notes.*)

In awarding contracts to the big munitions makers, government officials spend funds very freely. Most costs that are doubtful are resolved in favor of the contractor, thus insuring maximum profits. In discussing procurement practices. Sen. Paul Douglas (D., Ill) mentioned the usual rise in price levels during a war mobilization period, the absence of reliable cost estimates for new inventions and models for war, and the "dereliction among procurement officers" relating to "favoritism in the awarding of contracts."[5]

### *Profiteering in "Defense" Contracts*

To curb what are termed "excessive" profits from military contracts, Congress again enacted a renegotiation law. But the provisions of this law, as in World War II, are so mild and have been so weakened by restrictive amendments, that no one in Congress seriously expects recouping of any sizable war profits. Furthermore, as Senator Douglas put it, renegotiation officials who usually have close ties with procurement officers "are not likely to make rulings critical of the business judgment of their colleagues." As of December 31, 1954, a mere $232 million had been recovered, compared to the $11 billion recaptured under World War II renegotiation which, itself, was considered very weak.[6]

As a result of this leniency toward Big Business recipients of war contracts, the following cost padding items have been permitted in arriving at cost-of-production figures: enormous

salaries, bonuses and other compensation to executive personnel; plush expense accounts for these same officials; charge-off of capital outlays against current income; rapid depreciation allowances under government's amortization program; research and development expenditures on future products; institutional advertising programs; full write-off of special tools and equipment; and huge fees to professional advisers and contract men.

In addition, many big companies have introduced new and unproven design concepts which, if unchecked, will result "in a greatly increased cost of defense weapons." As one Congressional Committee sums it up, the government "uses the taxpayer's dollar to furnish facilities to huge manufacturers and then provides them with a climate which permits them to assume economic life and death over their small business suppliers."[7]

### *Waste of Taxpayers' Money*

New evidence keeps coming to light on the scandalous waste of tax money resulting from the huge pile-up of arms. Most recent exposure of such waste by the military is in the published report of the Hoover Commission on the Organization of the Executive Branch. It found, for example, that: (1) because of an improper inventory system and unrealistic stock levels, government warehouses are overstocked by from $10 billion to $20 billion worth of military property; (2) a large volume of military goods, because of rapid obsolescence is either sold as scrap, destroyed or abandoned; (3) about $2 billion worth of "surplus" property is disposed of annually, bringing in an average recovery of 5% to 7% of acquisition cost; (4) many military depots have in stock items sufficient for a 20 or 30 year period; and (5) government war agencies prefer to use their funds to buy new supplies rather than acquire property declared "excess" by other agencies.

An article in the *American Legion Magazine*, January, 1955, entitled "Billion Dollar Junk Piles," after discussing the "gigantic" military surplus business, concludes: "No wonder there are lush years ahead for surplus men—since the rate of obsolescence of military equipment is so breathtakingly rapid that a first-line airplane one year can be on the scrap heap the next." This highly

profitable business, says the article, is a product of "zooming war budgets and dizzying rate of obsolescence."

### *Rising State and Local Outlays*

Washington's preoccupation with building military might since 1949 has had a most serious effect on the spending needs of U.S. states and localities. Whereas, previously, such vital programs as schools, hospitals, roads and public welfare were financed in large measure from the Federal Treasury, in recent years most of the burden has been shifted to state and local governments.

This transfer of responsibility has come at a time when popular pressure for these programs has been steadily mounting all over the country. Rapid growth in population since the end of World War II, large-scale movement to many new communities, and a general rise in postwar prices have all served to increase vastly the required outlays for public projects.

As a result, spending by state and local governments (cities, counties and towns) has soared from a total of $10.5 billion in fiscal year 1944 to $40.5 billion in fiscal year 1955. Most of this rise is accounted for by increased construction work on schools, roads and sewer and water systems, together with large current allotments for education and for public assistance programs.

But the alarming fact is that, despite this tremendous rise in expenditures, many major needs of the people have not been met. In virtually all areas of the country, schools are seriously overcrowded; some 900,000 hospital beds and related health facilities are lacking; housing and slum improvement are terribly inadequate, and public works projects are vitally needed.

To finance all these rising costs, states and city governments have embarked on a wholesale tax-levying spree. They have sought increased revenues from virtually every source except the one where it could best be obtained—higher income levies on high personal income and on corporation profits. Except for some minor raising of rates in a few states, this tax has remained practically unchanged for the wealthy. For the wage-earner, however, pay-as-you-go plans have been introduced in ten states, while sales taxes, as we shall see in the next Chapter, have added especially to the burdens of the lower-income classes.

# 3. TAX BURDENS ON THE PEOPLE

During the calendar year 1954, the Eisenhower Administration claims, a total of $7.4 billion in tax relief was distributed "equitably" among the American people. This annual saving, more realistically, comes close to $10 billion as major aid provisions become fully operative. But when the main components of this relief are analyzed, it can be seen how one-sided they are in favor of the rich.

The principal features of this 1954 tax relief were: expiration of the tax on corporate "excess profits," $2 billion; permission to businesses to write off depreciation more rapidly, thus allowing them to show a lower taxable income for a given year, $2 billion (when fully effective); exclusion and credits for income derived from corporate dividends, $500 million; removal of some excise taxes mainly on luxury items, $1 billion; and ending of a Korean-motivated 11% hike in the individual income tax, $3 billion. (For workers with annual incomes under $3,800 this was more than offset by a one-half percent rise in the social security tax.)

In addition, other special relief provisions, affecting mainly upper-income groups, accounted for over $1 billion more. Altogether, no more than 5% of the tax-savings total was given to the roughly 70% of American families with annual incomes of less than $5,000.

*Sources of Revenue*

The entire development of tax levies over the past 15 years reveals how the tax load has been shifted onto the backs of the people. At all government levels, the pattern has been the same, with various techniques to serve special interests.

The following tables illustrate this pattern for both the federal and the state governments. Comparisons are made of revenue amounts collected from principal sources in three fiscal years: 1941, before U.S. entered World War II; 1950, before the Korean War; and the most recent year for which figures are available. Figures in parentheses show relative percentages of total income, excluding appropriations and refunds.

PRINCIPAL TYPES OF FEDERAL TAXES
*(billions of dollars; percentage distribution figures in parentheses)*

| *Kind of tax* | *1941* | *1950* | *1955* |
|---|---|---|---|
| Individual income* .. | $1.82 (22.8) | $18.12 (43.9) | $32.59 (46.9) |
| Corporate income ... | 2.21 (27.6) | 10.85 (26.3) | 18.27 (26.3) |
| Excise ............ | 2.39 (29.9) | 7.60 (18.4) | 9.21 (13.3) |
| Employment ...... | .93 (11.6) | 2.89 ( 7.0) | 6.22 ( 9.0) |
| Other ............ | .64 ( 8.0) | 1.85 ( 4.5) | 3.16 ( 4.6) |
| Total tax revenue** | $7.99 (100.0) | $41.31 (100.0) | $69.45 (100.0) |

SOURCE: U.S. Government budget for years ending June 30.

* Individual income tax includes estate and gift taxes which for 1955 amounted to $.94 billion.
** Before appropriations and refunds.

The table on federal taxes shows the vast revenue increase from all sources since 1941, accounting for a more than eight-fold rise in the total. It is significant to note how fortunate corporations have been, compared to individuals, in making up this rise. The share of the latter in total revenue more than doubled, while that of corporations actually declined. This is the clear result of lowering personal exemption for individuals while raising their tax rates, and failing to recapture a sizable share of the profits squeezed out of the economy by big corporations.

Other evidences of heavier burdens on the people are the tremendous increases in excise and employment tax revenue. Excises (in effect, sales taxes) now produce almost four times as much as in 1941, while the total paid in employment (mainly social security) taxes, approximately half of which is taken from workers' pay envelopes, rose more than six-fold.

PRINCIPAL TYPES OF STATE TAXES
*(billions of dollars; percentage distribution figures in parentheses)*

| *Kind of tax* | *1941* | *1950* | *1954* |
|---|---|---|---|
| Individual income .... | $ .22 ( 4.9) | $ .72 ( 9.1) | $1.00 ( 9.0) |
| Corporate income .... | .20 ( 4.4) | .59 ( 7.4) | .77 ( 6.9) |
| Sales and gross receipts: | 2.04 (45.2) | 4.67 (58.9) | 6.57 (59.2) |
| General sales .... | .58 (12.9) | 1.67 (21.1) | 2.54 (22.9) |
| Selective excises .. | 1.46 (32.4) | 3.00 (37.8) | 4.03 (36.3) |
| Motor vehicle licenses .. | .43 ( 9.5) | .70 ( 8.8) | 1.03 ( 9.3) |
| Other ........... | 1.62 (35.9) | 1.25 (15.8) | 1.72 (15.5) |
| Total ......... | $4.51 (100.0) | $7.93 (100.0) | $11.09 (100.0) |

SOURCE: U.S. Bureau of the Census.

The pattern revealed in the table covering state taxes is even more drastic. Here sales taxes, which consistently have been the major source of revenue, now provide nearly 60% of the total. In contrast, the tax on incomes, both individual and corporate, are relatively insignificant, being outranked even by the tax on motor vehicle licenses. While the incomes of wealthy individuals and corporations go virtually unassessed by state governments, the people must shell out more and more dollars in taxes levied on the necessaries of life.

The gradual shift of the federal burden of taxation from the wealthy to the people as a whole in the post-World War II period is indicated by other estimates made on the basis of the U.S. budget for the fiscal years 1946, 1953, 1955 and 1957 (preliminary estimate). These show that in 1946 about $18.1 billion was taken from the people and $22.6 billion from the wealthy; but by 1953 the figures were $36.3 billion and $34 billion respectively; in 1955 they were $37.1 billion and $29.7 billion respectively. And for the 1957 fiscal year the preliminary estimate is that $41.4 billion will come from taxes on the people and about $33.2 billion from taxes on the wealthy. This, of course, covers only federal taxes and not state and local taxes which, as indicated, are much more regressive.

In these estimates federal taxes on the people include all income taxes withheld, all employment taxes, and customs (passed on in prices) as well as all excise taxes other than a few small items. The taxes on the wealthy include individual income taxes not withheld, corporation income taxes, estate and gift taxes and a few small items. Certain minor miscellaneous receipts are not included in this classification.

### *One Third for Taxes*

A few years ago, an impartial study of tax burdens for the year 1948 by Prof. Richard A. Musgrave of the University of Michigan, found that families at all income levels up to $7,500 were paying out the same share of their income in total taxes (approximately 26-27%). For all incomes above $7,500, the average portion going to taxes amounted to only 36%.[8]

Since 1948, the impact on low-income groups has become still worse. Higher income taxes levied as a result of the Korean

War, plus an increase in federal and state sales taxes, leave less and less of a worker's pay for meeting the cost of living, which has risen over 11% since 1948.

Even the employer-financed Tax Foundation in 1954 found that the total tax burden for the average family amounted to almost one-third of its income. For an annual income of $3,500, the amount taken by all types of taxes was estimated at $1,055, or 30.1%; on an income of $4,500, it came to $1,425, or 31.7% of the total.

More recently, Prof. Musgrave reported to a congressional committee that there was little difference in the impact of existing taxes on families with lowest incomes—those earning up to $2,000 a year—and those in the highest groups, with over $10,000 a year. The former pay out an average of 27% compared to an average of only 41% for the latter. The family with $3,000 annual income, according to this study, shells out 28% in taxes, while the $10,000 a year family pays 33%.[9]

### *Federal Income Payments*

Every payday a sizable sum is extracted from a worker's and salaried employee's pay envelope. The major part of this sum is the withholding tax earmarked "income tax." The amount deducted for this purpose has risen sharply during periods of hot and cold wars. This has been accomplished mainly through raising the tax rate, and lowering personal exemption allowances.

Back in 1939, when the cost-of-living index of the U.S. Bureau of Labor Statistics was slightly more than one-half of what it is today, a single individual was permitted a $1,000 deduction in computing his tax. For a married couple, the exemption was $2,500, while an additional $400 was allowed for each dependent. Thus, for an average family of four, the total deduction was then $3,300. In addition, an "earned income credit" amounting to 10% of gross income was permitted each taxpayer.

Today, despite the increase in living costs, these allowances have been greatly reduced. The "earned income credit" feature has been eliminated completely. Meanwhile, the personal exemption, which was cut sharply during World War II to place the major cost of running the war on the backs of the people, remains ten years later at the extremely low level of $600 per person.

Our four-member family now takes a deduction of only

$2,400, or $900 less than in 1939. And a couple without dependent children is $1,300 below its 1939 allowance, or $1,200 instead of the former $2,500.

The following table shows the huge gap between the purchasing power reflected by the exemption levels of 1939 and September, 1955.[10]

| *Size of family* | *Exemption* | | *Exemption needed to restore* |
|---|---|---|---|
| | *1939* | *Sept. 1955* | *purchasing power of 1939* |
| Single person ....... | $1,000 | $ 600 | $1,937 |
| Married couple ...... | $2,500 | $1,200 | $4,837 |
| Family of 4 ........ | $3,300 | $2,400 | $6,393 |

The 1955 exemption should thus have been nearly $6,400 in current dollars to maintain the purchasing power that the average family of four possessed in 1939 with an exemption of $3,300. Instead it had been cut to $2,400.

And when this 1955 exemption is compared with the latest budget requirements for a minimum standard of living for a family of four (the U.S. Bureau of Labor Statistics' "minimum adequate" budget of $4,288 in October, 1954; the Heller Committee's "health and decency" budget of $5,466 in September, 1955) one can realize how completely inadequate it is. (For details on family budgets see our *Labor Fact Book* 12.)

The present initial tax rate on individual incomes is a poverty-creating one. For taxable incomes (i.e. gross income less deductions and personal exemption) up to $2,000 the rate is 20%. From $2,000 to $4,000, it rises to 22%. Hence for most workers, and other low income groups, a sizable tax bite is taken out of the pay envelope, after deducting a meager allowance for the necessaries of life. For gross incomes under $5,000, the total paid in federal income taxes now averages fully 9% of earned income.

Meanwhile, despite the high surtax rate (up to 91%) in the upper brackets, the rich find many ways to minimize their effective overall tax rate. One expert found that their effective tax never went higher than 47% for any income group. And a recent breakdown of income tax revenue revealed that fully 81% of the total comes from the initial 20% tax on the first $2,000 of taxable income. Thus, because of the many loopholes and tax avoidance and tax relief features available to rich individuals, less than a

fifth of the total federal personal income tax revenue is derived by applying more than the lowest rate to their incomes.

Yet because there is a slight element of progressiveness, that is, a higher rate for the higher brackets, in the levying of the income tax, a feature virtually absent from all other levies, it is attacked in reactionary quarters as "socialistic." While workers and medium-income groups cry out for a reduction of their huge income tax burden, the wealthy and powerful at the top seek to unload still more of their own tax obligation on lower-income groups.

### *State Income Levies*

While powerful lobbies in Washington have been effective in minimizing the income tax payments of the wealthy, those in the 48 states have been even more successful. The inadequacy of state income tax laws is one of the striking aspects of present-day taxation.

One-third of all states have no personal income tax whatever. These rely almost wholly on sales and other consumer-type taxes for their revenues. In those states that have an income tax the rates and personal exemption levels contrast sharply with those in the federal law. On the average, rates start at 1% to 2% at the bottom and run to no higher than 6%.

Exemptions in state laws are at more realistic levels, averaging $1,000 to $1,500 for a single person, $2,500 to $3,000 for a married couple and about $400 for each dependent.

Some ten states have now adopted the "pay-as-you-go" plan, four of them switching to this method in fiscal year 1955. So this is an additional sum taken from the pay of wage-earners.

### *Social Insurance Deductions*

In addition to the income tax deducted from pay envelopes, most wage and salaried employees also find their take-home pay reduced by the current 2% federal levy for social security. This deduction (matched by a similar levy on the employers) is paid into a pooled fund, from which disbursements are made to retired workers and to widows and other survivors of deceased workers.

The maximum sum of wages subject to this tax is now $4,200,

so that those in higher salary brackets have a large portion of their income exempt. Of course, no such tax hits the huge dividend income of wealthy corporate executives, who are usually the recipients of generous pension benefits when they retire.

Many states and municipalities levy additional social insurance taxes that are also withdrawn from the worker's pay. These are usually for some form of disability insurance, and amount on the average to about one-half percent of income. Local payroll tax levies have been increasing in recent years and are being used for a variety of government projects.

Unlike income taxes, the taxes on payrolls are usually at a flat rate regardless of the size of the wage or salary or total income, except, as noted, they do not reach above a fixed maximum.

### *"General" Sales Taxes*

The "general" or retail sales tax is now used by some 33 states. This type of tax covers virtually all consumer purchases (including even food and medicine in all but nine of these states), and amounts, on the average, to 3% of the sales price. The most common items covered by this tax are clothing (31 states), farm machinery (29), food (28), home fuel (27) and medicine (25).

The present drive to increase sales taxes is persistent and widespread. Many states have gone so far as to permit their cities and counties to levy a local sales tax on top of a state tax, without even asking approval of the voters.

Often, sales taxes are enacted to meet spending emergencies, but once levied, they seldom are repealed. The three cents taken with every dollar of purchase applies to the wealthy as well as the poor. But since the huge savings of the rich escape the brunt of this tax, while most of the earnings of the poor are hit by it, this is tax regression in the extreme. Especially tragic is the toll taken by all forms of sales tax from the aged, the sick and disabled, families of low-wage workers, the unemployed and from dependent families on relief.

### *Excise Taxes on Sales*

"Selective" sales taxes or "excise taxes on sales" (taxes levied on specific items of consumption) are collected by the federal

government, all 48 states, and many municipalities. These taxes are either "direct" (added on to the price of the commodity at the time of purchase), or "hidden" (assessed during various stages in the production of the commodity, but paid for ultimately by the consumer).

For some items like coal, clothing, tobacco and gasoline, taxes accumulated during the production process add up to more than half the sales price. On a man's suit there are some 116 different tax levies, while over 475 taxes are included in the cost of materials involved as well as in other transactions connected with the construction of a house.

Total taxes involved in the purchase of a new car are estimated at 28% of the retail selling price. These include levies on the manufacturer, supplier and dealer, federal and state excises, as well as the retail sales tax. In fact, so complex and overlapping is this area of taxation that tax "experts" often are at a loss to explain the laws clearly.

Total revenue obtained by all government bodies from these taxes (excluding the retail sales tax) is estimated at over $14 billion a year. But these taxes are costing the people several billions more than the government takes in, because the tax, when levied at any stage before reaching the retailer, is in most instances included in the cost of the article on which the businessman figures his mark-up.

Some of the most common items on which these "selected" sales taxes are levied are, for example, cigarettes where the federal tax on a pack is now 8c with the average state tax amounting to 4c and frequently an additional local tax of 1c, making 13c in all. On gasoline the combined federal and average state tax will currently come to 8c or more. Movie admissions of $1 will have a 20c federal and possibly a 5c local tax added. Telephone calls will have 50c added to each $5 monthly bill by the federal government and often 15c locally, as in New York City, making a total of 65c.

In recent years, as we have noted above, such taxes have been raised sharply in many states and levied for the first time in others as well as in various municipalities. For example, Pennsylvania in 1955 hiked its cigarette tax from 4c to 5c a pack and its gasoline tax from 5c to 6c a gallon. Other states, such as

Alabama, California and Maine, raised their gasoline taxes that year to 7c a gallon. In the same year a total of 15 states raised gasoline taxes; motor vehicle fees were increased in 24 states, and cigarette taxes in 15.

### *Some Other Taxes*

In addition to the major tax burdens outlined above, various minor levies have been enacted. Among these are the so-called local "nuisance taxes." These consist, in the main, of service charges, levies on property transfers, transient accommodations, and the like. New York City, for example, has a $5 auto use tax and a 1% utility tax. Almost all cities and states charge toll taxes for the use of tunnels, bridges and special thoroughfares.

One of the most shameful levies ever written into U.S. statutes is the poll tax, which is still on the books of five southern states: Alabama, Arkansas, Mississippi, Texas and Virginia. The amount of the tax ranges from $1 to $2, payment of which is a prerequisite for voting in these states but not an assurance that voting will be permitted. Existence of this tax, together with the lynch atmosphere of terror and intimidation, has caused the disenfranchisement of millions of Negroes and poor whites, resulting in repeated election of southern Bourbon legislators who actually represent only a small minority of their constituents.

Other taxes, not paid directly by the people, are passed along to them in part by the rich. These include mainly the corporate income tax and the property tax. An estimated one-third of the corporate levy is added on to the price of goods purchased by the consumer. According to Tax Foundation Inc. this amounts to about 6% of income for the average family.

Property taxes levied by local governments are either borne by small home-owners or passed on by landlords through higher rents. For most workers' families, this comes to about 3% of annual income. The great increase in home ownership during the postwar decade has added the burden of the property tax on top of the others carried by lower and medium income groups. Millions of people from the working and middle class, who have bought homes with long-term mortgages, have been soaked with rising assessments and with increases in local property tax rates.

The official figures show that local property taxes have about

doubled since 1945. Figures in the *Statistical Abstract of the U.S.*, 1955 (p. 399) show a rise from about $4.5 billion in 1945 to about $8.9 billion in 1953, and they have continued to rise in the years since.

Moreover, the character of these property taxes has changed enormously. In the old days they were paid primarily by the well-to-do and in the big cities the greatest share was paid by the major real estate and business interests. But the recent increase in this form of taxation has been almost entirely at the expense of the small home owners, who along with the farmers, now carry the main burden of increased rates on real estate. At the same time the assessments for the big commercial operations have been left at the low levels prevailing years ago.

While small home owners generally are assessed about one-half of what their houses would cost to build, the big business building owners are given relatively much lower valuations. In New York City, for example, the American Labor Party has for years exposed the fact that the properties of the New York Stock Exchange and the big banks and insurance companies, as well as many other centers of wealth, are actually assessed today for less than in 1932 at the lowest point of the great crisis and depression. But since then real property values in the Wall Street area have increased 100%, 200% and more. It is estimated that proper assessment of their real estate would yield the city at least an additional $150 million in tax revenue.

### *Tax Impact on Average Worker*

Let us now spell out the tax burden currently carried by an average worker's family of four, as determined by business studies. Remember that the average weekly wage in manufacturing is about $78 at present. This is higher than the average for workers in trade and industry as a whole but a useful average in making comparisons.

First, before his pay envelope is received, there has been deducted $5 for income tax, $1.56 for social security, and usually about 30 cents in non-federal taxes. Thus, instead of receiving $78, he gets $71.14. Of course, a married worker with no dependents receives but $66.54, while the pay of a single worker comes to only $64.24.

For our average family, close to one-half ($30 to $35) of take-home pay is spent for items covered by a retail sales tax (usually about 3%). This tax toll alone thus comes to nearly $1 a week.

Should the worker own an automobile, his total fuel tax (gasoline and oil) averages at least $1.10 a week, assuming normal driving of 9,000 miles a year. If the family goes to a neighborhood movie once a week, the tax added to the price of the tickets averages close to $1. Use of a telephone in the home adds another 15c a week to the tax bill.

Remember, too, that in the price of most commodities our family buys there is included a host of other taxes added on along the way. These consist of the various hidden excise levies at earlier stages of production and an estimated one-third of business income taxes, all reflected in the ultimate purchase price.

For the average worker's family, the full impact of the business income taxes amounts to an estimated $5 per week on all items bought. Total sales and excise levies, based on the Tax Foundation estimate, amounts to about $6.50 weekly. Also in our family's rent bill is included a large part of his landlord's real estate tax. This amounts to an estimated tax increment of about $2.50.

Thus, it can be seen that from almost every direction, in almost every phase of life, the whiplash of tax assessment strikes the American family. When reactionary sources shout: "One-third of family income goes for taxes," they are merely voicing a slogan for their own selfish purposes. But to the millions of low-and-middle income families this loss of purchasing power is a crippling blow at their standard of living.

# 4. AVOIDANCE BY THE RICH

THE RICH make a big to-do about the taxes they pay. Almost daily we hear their wails that the government takes from them almost everything but their shirts. This is a favorite theme also in radio, television, movie and other amusement media. The wealthy point to the high surtax rates on personal income saying, in effect,

"What's the use of making more money? Most of it is taken from us anyway."

Do the rich really pay so much in high taxes? Are they telling the truth when they say they are hardest hit by the current tax levies? The answer is an obvious "no," as almost every tax lawyer and tax accountant will readily admit. For, alongside these apparently high tax rates on income are a whole series of loopholes, avoidance schemes and relief provisions in the laws, written expressly to minimize tax liability for the wealthy.

The tax laws are especially designed to help those who obtain their income mainly from sources other than wages and salaries. Some provisions allow classifying part of this income as something other than income; other sections apply sharply reduced rates to certain types of income, or permit generous deductions and allowances against such income; still others attach so many relief provisions to the acquisition of certain income as virtually to eliminate any tax on it.

The late Randolph Paul, former U.S. Treasury official, who died of a heart attack while telling a congressional committee about the tax steals of the wealthy, in an interview in *U.S. News and World Report,* December 30, 1955, said: "You will find that taxpayers with $100,000 of income a year or more are actually paying in taxes substantially less than 45% of their annual increment in wealth."

### *Non-Wage Income*

Well-to-do individuals collect a sizable amount of their personal income from dividends, capital gains and estates and trusts. For example, *U.S. News & World Report,* May 20, 1955, in a breakdown of the incomes of 148 persons or couples with incomes of over $1 million each in 1952, found that about 46% came from dividends, about 26% from capital gains, 23% from estates and trusts, and 3% from rents and royalties. None of these sources is subject to an immediate withholding tax, as in the case of wages and salaries. Instead, estimates of income are filed on which taxes are paid at quarterly intervals.

Little, if any, control exists over the accuracy of such income reporting. For dividends alone, it is estimated that over $1 bil-

lion annually escapes taxation. Since most recipients are in the higher-income brackets, it is safe to conclude that the loss in federal revenue, due to this outright evasion, comes to at least $500 million a year.

Yet in 1954 the revenue law granted new relief to dividend recipients. The first $50 of dividend income (100 on a joint return of husband and wife) was made tax exempt on the 1954 returns. Furthermore, a credit amounting to 4% of total dividend income is granted against the total tax bill. This is estimated to provide another $500 million in tax savings, primarily to the upper one-eighth of 1% income group which owns 80% of all securities.

Interest income is another form favored by the tax laws. Most state and municipal bonds, owned almost exclusively by wealthy interests and individuals, are tax-exempt. Often these bonds are used to finance factories for run-away companies in low-wage unorganized areas. If all interest income were appropriately reported and taxed, the additional tax revenue would amount to an estimated $300 million a year.

A separate and distinct group of individuals who benefit greatly from our tax laws are those called "executives." This top-bracket group receives income somewhat like a wage-worker, as compensation from an employer. However, a worker's pay consists almost exclusively of a weekly wage entirely taxable, that of an executive takes many diverse forms, mainly in order to escape taxation.

"For a number of years now," *Fortune* reported, April, 1955, "corporate directors have concentrated on relieving the tax pressures on company officers and 'key' men. The combined pretax income from salaries and bonuses of such executives has risen steadily since the middle Thirties. . . . Moreover their cash incomes often have been sharply increased by tax-sheltered rewards—most notably by annuities, deferred pay and stock options, and by an extraordinary collection of tax-free fringe benefits: insurance, club memberships, use of company cars and planes, housing maintenance, entertainment and travel allowances, discounts, dining rooms, magazine subscriptions, etc."

Tax help to executives has become a key part of the "tax advising" business. Such professional tax services as Prentice-Hall

and Commerce Clearing House issue special volumes showing the executive how to keep most of his income from the tax collector. As a result, an accurate appraisal of the income of a business executive is almost impossible. Lush expense accounts and other forms of disguised compensation, special bonuses, profit-sharing and stock option, all help "management" to cut taxes.

One of the most widespread and growing practices in providing "tax-sheltered" income to corporate executives is the stock option plan. The *New York Times,* March 30, 1955, reported that about 400 of the 1,500-odd companies listed on the New York Stock Exchange had adopted such a plan. Its benefits, which were included in the Revenue Code of 1950 and later improved in the 1954 law, permit an executive to purchase a sizable block of his company's stock sometime in the future at 95% of the present prevailing price and to sell this stock at a profit "when the price is right." Such profit is treated as a capital gain, subject only to a maximum 25% tax.

### *Income-Splitting Methods*

Another form of relief—advantageous to rich families is the "split-income" provision. This permits a wealthy couple to divide equally the income of either member, thus getting the benefit of a much lower surtax rate on each portion. For example, a taxable income of $100,000 reaches the 87% tax bracket, resulting in payment of $67,320 in taxes. But a $50,000 income goes only as high as the 72% bracket, on which there is a tax payment of $26,820. Thus if a married couple at this income level splits its income, it pays only twice $26,820 or $53,640, a savings of $13,680. This tax benefit applies only to annual incomes over $5,000, increasing sharply in the topmost brackets. The AFL-CIO estimates that total annual tax savings by the rich arising from this device alone amount to no less than $3.5 billion.

Not satisfied with "income splitting" provided for them by law, the rich use the "family partnership" to accomplish more of the same. Members of a family who have no actual connection with a business run by one of them may be listed as "partners" and draw salaries. Thus, instead of having total profits drawn out of the business in the name of only one or two active owners (and, hence, subject to a higher tax rate) they are split up into

earning shares of inactive "partners," thus sharply reducing the tax liability. In recent years, this loophole has been so liberalized that even infants are "legally" listed as partners, for tax purposes. Tax savings due to this proviso are estimated at about $200 million a year.

A similar scheme has been used also very effectively by some major corporations where large blocks of stock are held by one family. In E. I. du Pont de Nemours & Co., for example, 35% of the stock is divided among some 117 du Pont family members, including women and children, and old men who have retired.

### *Capital Gains*

One of the most widely-exploited tax-avoidance schemes in recent years is the special treatment given to so-called "capital gains." These are profits realized on the sale or exchange of assets which have been held for at least six months.

The maximum tax rate applied to these profits is 25%, compared with the top rate of 91% on personal income, and 52% on corporate income. There is no economic reason for the law to classify this form of income as different from any other, except to provide the wealthy with a tool for minimizing their tax liability.

Here is what *Business Week*, April 16, 1955, said about this statutory relief provision for the rich: "Capital gains made our first millionaires—the early land speculators. Today, heavy tax rates on ordinary income make it virtually impossible to build a substantial fortune except through capital gains." (This is an exaggeration of the "heavy tax rates" on the rich, but at least it shows how they regard the capital gains tax as a fortune builder.)

This bonanza to the wealthy has been extended in recent years to transactions far beyond those intended by the original law. It now includes such items as coal royalties, sales of unharvested crops and breeding livestock. "Of course, this does not help small farmers, but it greatly reduces the taxes of big ones."[11]

J. B. C. Woods, writing in *Taxes*, May, 1955, points out that capital gains are highly concentrated in the middle and upper brackets. He calls capital gains "a privileged type of income," and says that almost any kind of income, except wages, can be

changed into capital gains. It can thus enjoy a "maximum tax rate—less than one-third of the maximum rate applicable to ordinary income."[12]

Large amounts of capital gains are treated as "unrealized" (not yet sold) and, hence, not subject to taxation. Many of these are transferred to heirs without payment of income taxes, or else are eventually realized in a trick way in order to avoid the tax. Hundreds of millions of dollars made by Henry and Edsel Ford escaped taxes in this manner, as Victor Perlo explains in his pamphlet, *The Income "Revolution."*

Despite huge tax savings received from this special concession, wealthy investors, led by the blue-chip holders of Wall Street, call for further easing of the capital gains features of the tax law. Their proposals include, among others, cutting the top tax rate in half, to 12.5%, and reducing the holding period to three months.

A true assessment of the full savings to the rich in resorting to capital-gains avoidance is difficult to make. The AFL-CIO estimated very conservatively that a mere tightening of some of the provisions of this law would net the Federal Treasury an additional $1 billion yearly.

Actually, the results of the elimination of this tax avoidance provision would mean an even greater savings. The Staff Report to the Senate Committee on Banking and Currency, *Factors Affecting the Stock Market*, April 30, 1955, estimated that capital gains reported by individuals were believed to be "about $10 billion for 1954." And it added $2 billion for corporate capital gains even for 1951. So that for this approximate total of $12 billion in such gains the tax saving for the rich amounted to at least 25%, or around $3 billion a year.

### *Estates and Gifts*

Large family fortunes passed on through gifts and inheritance are given sizable tax "breaks" through weak federal legislation. Big portions of estates and gifts are exempt from federal taxation through (1) expense deductions for administration, debts and burial, (2) marital deductions or transfers—up to 50% of the net value of the gift or estate, (3) charitable contributions, and (4) specific exemptions ($60,000 for estates, $30,000 for gifts).

In addition, various schemes can be resorted to for dodging full tax liability. Changes in the federal tax code in 1954 made it even easier to minimize the estate tax liability, without the need of breaking up family estates.

Total share of estates and gifts escaping taxation is now more than three times higher than in 1939, yet the rates during this period have remained virtually unchanged. It is estimated that the tightening up of gift and estate tax loopholes would bring in an estimated $1 billion more per year in revenue from the rich.

### *Use of Foundations*

A widely used means for retaining control of a family enterprise while, at the same time avoiding the payment of stiff income or inheritance taxes is the so-called family "foundation."

Set up ostensibly for charitable and philanthropic purposes, these foundations serve as ideal vehicles for the rich, not only to retain much of their wealth, but also to identify their family names with seemingly public-spirited and humanitarian goals which, however, are often against the peoples' best interests.

The giant Ford, Carnegie and Rockefeller fortunes were incorporated as foundations, while the Mellon Fund and the Cullen Foundation (Texas) are set up as trusts. All income received by these entities is completely tax exempt.

Also under present federal law, up to 20% of an individual's net income and up to 5% of a corporation's net earnings are exempt from taxation if given to such organizations. But there is practically no limit on the amount of charitable legacies that may be deducted from the value of an estate and thus exempted from inheritance taxes.

In addition to the family-type foundations, numerous others have been formed by wealthy groups for the twofold purpose noted above: (1) tax-avoidance, and (2) promoting special causes. Notable among these are the pro-McCarthy Facts Forum sponsored by Texas oil tycoon H. L. Hunt, and such right-wing propaganda organizations as the Republic Educational Foundation, the American Economic Foundation and the Foundation for Economic Education. A large number of such tax-exempt

foundations compete daily in selling "free enterprise" and the so-called "American Way of Life."

### *Tax Evasion*

During the Truman Administration, the nation was shocked at the exposure of wholesale graft and corruption in the Bureau of Internal Revenue. Tax-fixers, mink coat recipients and officials high in the government were all linked in a scandalous web that contributed to widespread tax evasion by the wealthy. Investigation revealed that industrialists, gamblers and top entertainers were the main tax defrauders, and the fixers in Washington waxed fat on the business of helping the evaders.

One might expect that after such exposures, enforcement policies would be tightened sufficiently to eliminate this cheating. But in April, 1954, the then Internal Revenue Commissioner, T. Coleman Andrews, complained that federal district judges were giving "pat-on-the-wrist" punishment to income tax law violators to the point where "tax fraud is becoming 'socially acceptable.'"[13]

The following year, he reported, among other violations, that many of the 500,000 Americans living abroad were failing to pay their U.S. taxes. And the *Wall Street Journal* reported that one such fraud case "netted the government $20 million. Another American citizen, with an estimated net worth of close to $200 million, had never filed an income tax return."[14] In asking for authority to hire more tax investigators, Andrews said if this were done he expected eventually to recover $1.5 to $2 billion in unpaid taxes annually.

Common methods of tax evasion, other than outright non-reporting of income, according to one authority, include the following: "keeping a double set of books, concealing bank accounts usually under assumed names, counterfeit invoices, false entries, fictitious transactions in the names of dummies or figureheads, non-recordation [sic] of sales, personal expenses deducted as business expenses, bonus kickbacks, [and] conducting business in cash so as to avoid revealing bookkeeping records or those kept by banks." Evasion cases also arise as a result of "income from illegal sources, embezzled funds, [and] income masquerading as gifts."[15]

*Further Demands of Reaction*

Despite the present opportunities for avoidance and evasion, serious efforts are being made in some quarters to eliminate completely the personal income tax—the only tax which still retains generally progressive features. Despite the various ways the rich have found to bypass their full liability under this tax, these interests are clamoring for outright repeal by labeling it "socialistic," and destructive of "free enterprise." No less a public personage than J. Bracken Lee, Governor of Utah, is active in this campaign.

Another leader in this movement to do away with the personal income tax is T. Coleman Andrews, former U.S. Commissioner of Internal Revenue, who calls the tax "the greatest promoter that anyone ever thought of for making us a nation of liars and cheats." (*Business Week*, April 14, 1956.) But he has at no time suggested what revenue sources the government could tap if it lost the power to tax incomes. However, some in this reactionary camp have been pressing for a federal sales tax of as high as 5% to cover everything bought, with the possible exception of food.

Another campaign, in progress since 1938, aims, as the *New York Times*, April 2, 1956, puts it, "to clamp a peacetime ceiling of 25% on federal tax rates for individual and corporate incomes, gifts and estates." And the effect, it is admitted, "would be the largest windfall of all time for business and well-to-do persons, at least $16 billion a year." It is estimated that "fewer than 1% of the country's individual income tax payers would benefit from a 25% limit on tax rates." And in the business field, "the proposal would favor companies with earnings of more than $25,000, the point at which the 52% top rate starts."

It is claimed that some 31 state legislatures have already, at one time or another, expressed approval of this proposal, but at least ten of them later rescinded the action. However, the drive for this "Millionaires' Amendment" continues on a well-financed basis and is supported by many wealthy and reactionary organizations. The National Association of Manufacturers, while not officially endorsing the 25% limitation amendment, has gone on record for a maximum rate of 35% for both individual and corporate income taxes.

# 5. AIDS TO MONOPOLY

Big business interests see to it that the nation's tax laws help promote their concentration of wealth. First, they lobby to keep tax rates on business income at the lowest possible level. Then they devise schemes for additional concessions to enhance their bigness.

The present Administration seeks to develop even further this one-sidedness in favor of the monopolies, while the mass of low and middle-income families continue to shell out in taxes sizable portions of their earnings.

Monopoly corporations find the tax laws aiding them at almost every step of the way. Various methods for siphoning off large shares of their superprofits into "non-income" categories will be described below. As a result of such devices and loopholes, corporate income reported for tax purposes is vastly understated so that tax liability is substantially reduced.

Even when an excess-profits tax is on the books, the big corporate interests get clauses written into it, relating, for example, to base period definition, alternative methods of calculation, and relief provisions, in such a way as largely to nullify the purpose of the law. In 1953, with the excess profits tax still in effect, General Motors Corp. alone escaped paying over $400 million of its true tax liability because of the numerous loopholes it exploited.

Because of profit-retaining features, such as accelerated depreciation, U.S. corporate monopolies are more and more able to generate capital internally to finance their huge expansion programs. Less than a third of their new capital is now derived from borrowing, compared to nearly 100% required by small business from outside sources, with resulting interest charges.

The extra-large profits made by U.S. corporations in certain foreign countries also get favored treatment from the tax collector. Taxes on this share of corporate profits are "deferred" until they are withdrawn from the foreign country and then given a 25% capital gains rate instead of the usual 52% corporate tax rate. Proceeds from U.S. investments in various Latin American countries and Canada, for example, receive such tax breaks.

One writer points out that over 100 companies in Liberia operated in this way in 1954.[16] Another reported that Panama provides similar tax benefits to U.S. monopolies by organizing corporations to serve as subsidiaries, and that the "Overseas Management Co. of Panama, Inc., claims 'thousands' of U.S. companies are taking advantages of tax benefits" in that country.[17] Other areas that serve as similar tax "havens" or "sanctuaries" to U.S. corporations are Bermuda, the Bahamas, Tangier, where there is no income tax at all, as well as Lichtenstein, Luxemburg and Switzerland where there is no income tax on holding companies.

Tax considerations were very significant in the recent rapid growth of corporate mergers. Provisions dealing with loss carry-overs, capital gains treatment of appreciated stock values, and corporate reorganizations were among the decisive factors facilitating such mergers. Rep. Wright Patman (D., Texas) told a House committee: "The principal impetus for the merger movement is coming from the fact that today the lion's share of the investment funds are being channeled to the giant industrial corporations."[18] This results from recent changes in the tax laws which, as Patman put it, "shifted the income shares to favor big corporations and high-income families." Among such changes were the removal of the excess profits tax, and the application of the flat 52% rate on all corporate income over $25,000, instead of graduating the rates in the surtax level.

In contrast, small business receives very unfavorable treatment from the tax collector. The income tax rate is the same on all incomes up to $25,000 (30%), after which it becomes 52% on all additional income. Few, if any, of the concessions available to the bigs are of much advantage to the smalls.

In addition, numerous state and local levies, such as the gross receipts tax, license fees and other so-called "nuisance" taxes, are applied at uniform rates to business of all sizes. While virtually negligible in their effect on the bigs, they tend to serve as a drain on the already dwindling income of most small firms.

Often the small company which cannot cushion an operating loss as successfully as its big competitor (that is through carry-back, carry-forward provisions), is absorbed by the latter, after which the loss gets charged off against future profits of the surviving monopoly.

Tax concessions have been effectively used to throw workers out of jobs and to depress wage standards. This is accompished mainly through the notorious "industrial migration" practice of many big companies, which are offered tax-free property as bait, for example, by many southern communities.

An American Federation of Labor report, summarizing this run-away plant situation in 1955, concluded that "subsidized migration, or what might well be called the pirating of plants from their established locations, has taken a heavy toll in terms of unemployment, un-economic dislocation and sectional bitterness."[19]

## *Depletion Allowances*

"I know of no loophole in the tax laws so inequitable as the excessive depletion exemptions now enjoyed by oil and mining interests," President Truman said in his budget message in 1950. The term "depletion," which is supposed to signify the gradual wasting away of a natural resource, has nothing in common with the huge tax credits for depreciation granted annually to these industries. Whereas depreciation is calculated as an annual percentage deduction based on the expected life of a property, depletion is figured as a percentage of gross income, running as high as 27.5% in the case of oil.

The provision in the Tax Code, originally enacted only for oil, called for two types of credits: (1) "expense of intangible drilling and development costs," to be treated as current expense; and (2) a "depletion allowance," supposedly to permit an oil well operator to get back his original investment.

However, in actual practice, the second credit is really a giveaway, since the original investment is written off in the current year under the first allowance. As a result, taxes of the oil industry amount to only 25% of their operating income.[20]

Oil stocks are called by financial consultants "tax-sheltered investments." An indication of how sheltered they are for some companies was given by a congressional committee for the year 1952, as follows:[21]

| Company | Tax saving due to depletion allowance (in millions) |
|---|---|
| Humble Oil and Refining | $88.5 |
| Socony-Vacuum Oil | 45.1 |
| Standard Oil (Calif.) | 60.9 |
| Phillips Petroleum | 33.0 |

So lucrative did depletion allowances become for oil tycoons that other "extractive" industries pressured Congress into similar treatment for them. At present, this bonanza has been extended "to producers of coal, iron ore, other minerals, sand, gravel, stone and almost everything else taken out of the earth, except plain dirt."[22]

As a result of the give-aways for depletion and drilling expense, huge personal fortunes have been built, for example, by the Texas oil kings. H. L. Hunt, says the St. Louis *Post-Dispatch*, "has an estimated income of $140,000 a day and is said to be worth somewhere in the neighborhood of two billion dollars."[23] Hunt and his associates have contributed heavily to the election campaigns of Senator McCarthy, Jenner and others in both parties. "Is it any wonder," asked the *Post-Dispatch* article, "that the 'Big Rich' use their money in politics in order to elect the 'right men' and preserve Uncle Sam's special favoritism for them?"

A 50% reduction in existing allowances for depletion, it is estimated, would net the federal Treasury at least $1 billion additional in annual revenue from the wealthy oil and other companies exploiting our natural resources. If these special privileges were entirely eliminated the saving would amount to at least $1.5 billion.

### *Rapid Depreciation Extended*

One of the immediate benefits to Big Business resulting from the Korean intervention was the government's tax amortization program. Its purpose ostensibly was to encourage expansion of productive capacity. The program provided that war manufacturers and war-supporting industries could write off a major part of the cost of new facilities in only five years, instead of over the normal 20 to 30 year period. Main beneficiaries were the big steel, chemical, electric power, mining and metal companies,

with railroad and other companies also sharing in this gigantic subsidy at public expense. It was described by one congressional committee as "the biggest bonanza that ever came down the government pike."[24]

Even after the Korean War ended in 1953, and the excess profits tax was allowed to expire, this "emergency" measure continued on the books. The total of all amortization certificates issued, as of December 31, 1955, exceeded 20,000 and involved projects amounting to almost $33 billion. Average share of a project's cost subject to rapid depreciation was roughly 60%, and the total was close to $20 billion. Hence, at the end of 1955 when the peak volume of write-offs was being reached, anticipated depreciation, at an annual rate of about $3 billion, was still deducted by companies involved in "defense." Since the corporate income tax rate is currently 52%, taxes saved by the corporations as a result of this program have been about $1.5 billion a year.

In the 1954 Internal Revenue Act the Eisenhower Administration extended partially to all corporations the depreciation advantages previously given only to those with "defense" contracts. This feature, moreover, was called the "cornerstone" of the Administration's entire domestic program.

Companies are now offered alternative methods for writing off the cost of plant and equipment. Formerly, depreciation was figured at a fixed percentage of investment each year, usually about 5%, based on a 20-year life period. Now they may use a "declining-balance" method, which allows two-thirds of the cost to be written off in the first half of the life of the assets.

Already, total annual depreciation allowances during the past decade have risen about 275%. From $4 billion in 1946, the total has jumped to its present annual rate of almost $15 billion. Estimates of the tax losses to the government, as this feature becomes fully operative, run to roughly $2 billion a year.

### *Business "Expenses"*

Because of the leeway granted by the Internal Revenue Service in charging off expenses against income, the big corporations have developed "cost-padding" into an art. Almost every conceivable technique has been resorted to in minimizing net income subject to taxation. Some of the more popular ones, like

the huge executive compensation schemes, executive expense accounts, accelerated depreciation, depletion, and charitable foundations, have been mentioned above. There are many others, some of which were only recently granted.

The Revenue Act of 1954 permits businesses to write off in a single year the entire cost of research and development projects incurred during the year. Results of these projects often will not be of value until many years to come. But knowing that the government will now subsidize a good portion of this research by way of tax relief, big companies are encouraged to earmark huge outlays for this purpose. Main beneficiaries are the aircraft, electronics and other industries that use this subsidy for developing more monstrous means of mass destruction.

Another way available to large corporations for understating their profits is through large-scale advertising and publicity programs. The General Motors Motoramas, the General Foods Extravaganzas, special exhibits and displays and spectaculars on television are but samples of the enormous promotional campaigns. Often, there is no immediate competitive advantage sought through such publicity. It serves merely to keep a company's name and "good will" before the public. Of course, with huge surpluses available to these firms, and with the government footing about half the cost, monopoly's position can only become further entrenched through such means. The advertisements also may often be pure political propaganda for capitalism.

Frequently, companies will write off large capital expenditures in a single year, using some pretext such as calling them "repairs" or "maintenance charges," or claiming limited use of equipment, as with special tools used in war production.

Other methods for reducing tax liability involve inflating purchase figures, use of the LIFO (last in, first out) method in inventory valuation, and allocation of overhead. In all such cases, deductible charges are increased beyond their true measure, thus further understating actual profits and cutting the taxes due the government.

### *Excess Profits*

One of the first goals Big Business achieved after the end of the Korean War was repeal of the excess profits tax, effective

January 1, 1954. This tax, though replete with relief provisions and alternative methods of computation, still had produced from two to two-and-a-half billion dollars a year, largely from recipients of war contracts.

As soon as the tax was lifted, net profits of these corporate giants showed sizable gains. General Motors, for example, in spite of a 2% sales drop from 1953 to 1954, reported a 34.8% increase in net income after taxes; and General Electric's net profits rose 28% in the face of a 5% decline in sales. This pattern appeared in the 1954 profit statements of almost all the "blue chip" corporations. In 1955 the results were even more manifest, as the sales of these concerns also rose sharply.

Payment of an excess profits tax in 1953, the last year of its existence, still left corporations with after-tax profits of $17 billion. For the year 1955, when no excess profits tax was in effect, after-tax profits were estimated at $21.6 billion, compared with $16.1 billion in 1952.

Simple restoration of this tax, in its previous form, would yield the federal government about $3 billion, at present profits levels. Athough a more effective excess profits tax, free of the old loopholes, is called for in order to recoup a sizable share of superprofits, re-enactment of the earlier measure is a minimum requirement today.

### *Other Concessions and Favors*

In addition to all the tax-avoidance and relief provisions cited above, the income tax laws offer many other minor concessions to monopoly. A series of provisions deal with tax considerations involving forms of business organization, reorganizations, liquidations, mergers or transfer of stock ownership, shedding of subsidiaries, etc. The business of tax advising in these areas, as an aid in multiplying corporate wealth, cannot be overemphasized.

The big life insurance companies are handled by tax authorities with kid gloves. Despite their tremendous asset rise in recent years, these companies still pay only a negligible portion of their total net income in taxes. The rate is only 3.75% on "net investment income" up to $200,000, rising to just 6.50% on larger amounts. Since 1921 only the "investment income," not the total income, of these companies, has been subject to federal taxes.

The Wall Street banks also are the recipients of special tax favors from the government. By a weird tax gimmick they are allowed to count losses on government bond transactions as ordinary losses which would mean a 52% tax saving. But when they make profits on such transactions they are counted as capital gains on which the tax is 25%. Since government bond prices fluctuate and the banks continually buy and sell these bonds, they thus clean up literally millions of dollars at the expense of the government.

*Summary of Treasury Losses*

Combining all the avoidance statutory relief and various evasion features cited in this and the previous chapter, we can arrive at an approximate measure of the full extent of taxes withheld annually from the federal treasury. In many instances the estimates are minimal, representing the amount that could be recouped by some moderate tightening of the law (for example, capital gains), or by re-enactment of laws that were previously in effect (excess profits tax).

The following table lists some of the major income-tax loopholes and the resulting benefits available to the wealthy corporations and individuals, with corresponding losses to the government, losses which the small-income and medium-income families have to make up. The amounts represent for each item the total in taxes lost to the government, as explained in previous sections:

| (*In billions*) | |
|---|---|
| Income splitting | \$3.5 |
| Estate and gift | 1.0 |
| Non-taxable interest, dividend credits and exclusions | 0.8 |
| Capital gains | 1.0 |
| Family partnerships | 0.2 |
| Depletion | 1.5 |
| Rapid amortization | 1.5 |
| Accelerated depreciation | 2.0 |
| Excess profits tax | 3.0 |
| Evasion | 1.5 |
| Miscellaneous (including executive compensation schemes, foundations, etc.) | 0.5 |
| TOTAL | \$16.5 |

From federal statistics of income, it is clear that the big companies pay about 80% of the total corporate tax bill, or around $16 billion, and that well-to-do individuals (those with gross incomes over $10,000) pay about 40% of the individual income tax bill, or around $14 billion. Thus, in total federal income taxes the upper-income groups are paying about $30 billion annually. From this the startling fact emerges that in the U.S. today the wealthy are escaping payment of over one-third of their true federal income tax liability.

The vast extent of the amount of income not reported by the rich is brought out in another way by Victor Perlo in his pamphlet, *The Income "Revolution."* He estimates that the top 1% of the population reported for income tax purposes $18.7 billion in the year 1948. But they received a minimum of $7.5 billion which was not reported and another $8.8 billion as their share in the undistributed profits of corporations, making a total of about $35 billion. This was thus nearly double the amount of income reported.

Remember, too, that the wealthy are also escaping a very sizable share of their state and local tax liability as well. For at these levels sales taxes hit low-income groups the hardest, while the incomes of the rich go relatively untouched.

## 6. ANTI-MONOPOLY TAX PROGRAM

THE BIG monopolists use the tax laws as a powerful weapon for strengthening their control over the nation. Their increasing concentration of wealth, their retention of large shares of the super-profits and personal fortunes they extract from the economy, their unloading of the huge burden of financing armament and other government expenditures onto the backs of the American people, are all promoted by the totally one-sided character of present-day tax legislation.

To counter this growing onslaught by Big Business, the trade unions have made proposals to relieve low-income taxpayers of much of their load, and to put heavier assessments on the wealthy. Most of these proposals correctly call for greater pro-

gressiveness in the tax structure at all government levels, with special emphasis placed on the generally reactionary character of present state and local levies.

A fundamental weakness of most tax programs advanced by organized labor has been their failure to emphasize and oppose the key reason for high federal taxes—the colossal and wasteful military expenditures. So long as union leaders accept the false illusion of an armaments "prosperity," they undercut any serious attempt at real tax reduction.

Developments in 1955 at Geneva as well as in other parts of the world, tended to reduce tensions considerably. And recent events have helped to explode the myth of so-called "Soviet aggression," and to demonstrate the senselessness in spending additional billions to pile up arms.

A vital feature of any sound tax program today must be a demand for sharp curtailment of military outlays, and a parallel easing of tax burdens on the people. "For every $1 billion shaved off the arms budget, the average American would benefit by $6 if the savings in government spending were passed back to him in tax cuts," *Federated Press* estimated, Sept. 7, 1955. "This means $24 to the average income family of four. . . . If the saving is passed along in fair proportions, to those who need it most, it will benefit not only the low-income people who are paying too much in taxes today, but also the small business people, the farmers and the service and production industries where they will spend the new-found cash."

Legislation was introduced in Congress in 1956, notably by Senator Fulbright (D., Ark.) and Representative Patman (D., Texas), aiming to revise the present corporate tax law in favor of small business. Insofar as such proposals seek to distribute the tax burden more equitably, they deserve the full support of the American people. But most urgently needed is a drastic overhauling of the nation's entire tax system so that the tax load will be carried by those best able to bear it.

To reverse the regressive pattern of taxation that has developed mainly over the past 15 years, workers, farmers, small businessmen and professionals have to unite behind a program that would slash into the exorbitant profits of the big trusts and the private fortunes of their wealthy owners, and would curb any

further growth of the giant corporations at the expense of the people.

### *Progressive Proposals*

Such a program, in the first place, must make a truly progressive income tax the main revenue-producing source at all government levels. All income, from whatever source, should be fully taxable at the applicable surtax rate. Withholding taxes, levied at present only on wages, must be extended to other forms of income, such as dividends and interest.

The personal exemption for individual income tax returns, at present only $600, should be raised to at least $1000, with no tax to be levied on family incomes which fall below the minimum subsistence level.

An important step in simplifying the filing of an individual return would be the elimination of all deduction features in the present law, and the substitution of a flat "earned income credit," say 10%, against gross income. The remaining 90%, less personal exemptions, would be then subject to the full tax rate. Similar provisions should be written into the revenue laws of all 48 states, amending those in the 31 states which already have an individual income tax, and introducing them as new laws in the remaining states.

The corporate income tax, which today bears heavily on new and small businesses, while granting gross favoritism to the big monopolies, also should be drastically overhauled. Special privileges dealing with rapid depreciation, oil depletion, expense write-offs, and other devices discussed above, which save the wealthy billions in taxes annually, should be entirely scrapped. On the other hand, favorable tax consideration should be granted to newly-formed small businesses and those with an uneven record of profits and losses.

The present tax rates on corporate profits (30% on the first $25,000; 22% on income in excess of $25,000) should be changed in favor of a progressively graduated system of rates. Such a system should start at a very low rate at the bottom level of income, increase moderately at the outset, but move up sharply later on, and include, finally, an excess profits tax for the upper-income brackets. The latter, to be fully effective, must be related

to a reasonable base period with proper standards for "normal" income.

More state revenues should be obtained also from the corporate income tax by hiking present income rates which are now virtually ineffective.

In addition, the share of after-tax profits retained by the big corporations (undistributed profits) must be strictly limited by law, so as to prevent the harmful effects on the economy resulting from huge surplus accumulations in the treasuries of the monopolies.

With all loopholes, relief provisions and other avoidance features removed from the present federal tax code, the resulting increase in taxes collected from upper-income groups would easily offset the relief rightfully due all others.

A vast saving of $20 to $25 billion in the arms budget could be used, in part, to finance long-overdue socially useful projects, and the remainder for additional tax relief for the people. In this way, most, if not all, of the unpopular excise taxes on items of consumption could be repealed. With greater revenue coming to states and municipalities from income tax sources, as indicated above, most of the sales taxes could likewise be scrapped.

The most rigid enforcement procedure, together with stiffest penalties, should be written into the law to prevent the wealthy from evading their fair share of the tax load.

Finally, Congress and the state legislature should repeal at once, and forbid in the future, any poll tax or similar levy serving to disenfranchise or otherwise interfere with the civil rights of any minority.

A people's struggle for a tax program of this type requires organized and united action at the "grass roots" level. Unpopular and oppressive taxes, historically, have served as a lever for mass uprising. Many of the early popular movements in Europe stemmed from increasing dissatisfaction with one or another tax levy. In our own country, the first successful struggle for freedom was sparked by actions such as the Boston Tea Party and slogans like "No taxation without representation."

In the United States today, taxes are a key issue both in the immediate sense and in the long range anti-monopoly plans of the people. Only the most united action by labor and all its allies

behind a program calling for a thorough redistribution of tax burdens from the poor to the rich, coupled with strong opposition to wasteful and unnecessary high armament spending, can effect basic changes in tax legislation. Whatever steps are taken in this united way by an anti-monopoly coalition will help to raise the living standards of the people and strengthen the genuinely democratic forces in this country and in the world.

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